

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



August 20, 2003

The Honorable Anthony A. Williams
Mayor
District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., 6th Floor
Washington, D.C. 20004

Re: Unpaid Invoices from the General Services Administration

Dear Mayor Williams:

The purpose of this Management Implication Report (MIR 03-A-04) is to inform you of long standing overdue invoices for supplies and equipment from the General Services Administration (GSA) and late payments by the District of Columbia government (District). Additionally, we would like to inform managers about measures that have been taken to improve the conditions cited in this report and to encourage managers to continue working to eliminate these conditions permanently.

During the course of internal reviews of Office of the Inspector General procurement actions with GSA, a GSA official hinted that GSA might limit services to the District because of unpaid invoices. Subsequently, our inquiries determined that some GSA's invoices to the District were seriously overdue for payment.

As of October 26, 2000, the District owed over \$16.5 million to the GSA of which, approximately \$6.1 million was for supplies and equipment. A review of unpaid invoices for supplies and equipment as of July 31, 2003, showed that the District owed \$4.7 million to GSA with invoices overdue from 45 days to 2,060 days.

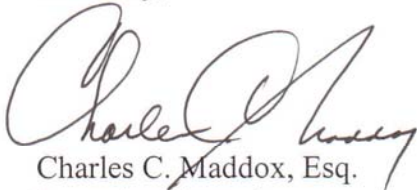
During the period from October 2000 to October 2002, the District has taken aggressive action to settle many of these unpaid invoices. More recently the District has established processes to help prevent recurrence of overdue invoices from GSA. However, the current outstanding balance has remained virtually unchanged for more than 9 months. Notwithstanding the reductions made to outstanding invoices, continued management attention is crucial to ensure that prompt payment occurs.

Once this Office became aware of GSA's concerns, we contacted representatives of the Office of the Chief Financial Officer, including the Executive Director, Office of Integrity and Oversight. The OIG and the Executive Director jointly arranged for various preliminary meetings with involved District agency officials. Subsequently, we attended several meetings to monitor progress. In February 2003, the District organized a formal Vendor Information Committee (Committee) under the leadership of the Office of Finance and Treasury (OFT) to replace those meetings. The Committee includes District and GSA representatives who address the payment process and propose solutions for payment problems with regard to GSA.

Identified problems and potential solutions, along with other matters of interest to District managers, are included in the attached overview. It is our hope that this Management Implication Report will encourage management to make additional improvements.

If my Office can be of further assistance, please contact me or William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

CCM/cj

Enclosure

cc: See attached Distribution

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OVERVIEW AND HISTORY OF GSA BILLINGS IN THE DISTRICT

HISTORY OF GSA BILLINGS

For over 20 years, the District has been a customer of the GSA, the largest procurement organization of the federal government. While the District has enjoyed favorable prices, efficient procurement and financial services, and responsive supply service, the relationship has been strained in recent years because of chronic late payment of invoices. In October 2000, the District had outstanding invoices of approximately \$16.5 million. As of July 31, 2003, the District had outstanding invoices of approximately \$4.7 million due to the GSA for supplies and equipment.

GOVERNING CRITERIA

The Debt Collection Act of 1982, as amended, requires agencies, unless expressly prohibited or restricted by statute, loan agreement, or contract, to assess three separate and distinct types of late charges on all delinquent debts, including debt owed by state and local governments. *See* 31 U.S.C. § 3717. Late charges are categorized as interest, penalties, and administrative costs:

- (1) Interest. Interest compensates the Government for the loss of use of funds when the debt is not paid timely and accrues from the date of delinquency. At a minimum, the interest rate will be set at the same rate as the Treasury's Current Value of Funds Rate for the period in which the debt became delinquent. The agency may assess a higher rate if necessary to protect the Government's interest.
- (2) Penalties. Penalties are designed to discourage delinquencies and encourage early payment of the delinquent debt in full. As set by statute, the penalty to be assessed on a delinquent debt is an amount not to exceed 6 percent per year. An agency should not charge a penalty of less than 6 percent without a compelling reason. Accruing from the date of delinquency, the penalty charge is assessed on any portion of a debt outstanding for more than 90 days, excluding any interest and administrative costs.
- (3) Administrative costs. These are costs associated with the collection of a debt from the date of delinquency. The agency will set the amount at either the actual costs incurred for the individual debt or the average costs incurred at similar stages of delinquency for particular types of debt. Costs may be assessed as a percentage of the amount collected.

POTENTIAL PENALTIES

The Office of the Inspector General (OIG) is aware of recent ongoing improvements and initiatives by District management to resolve this problem. Paying entities such as GSA timely and utilizing the most efficient payment mechanism not only will enable the District to remain in good standing with GSA, but also will save money in reducing or eliminating potential interest and penalties incurred for late payments.

Unless the late payment problem is resolved and more efficient methods of payment are devised and enforced, the potential exists for the District to be charged interest and administrative fees. In discussions with GSA officials, we were informed that GSA was contemplating terminating the procurement arrangement with the District. In these discussions, it was estimated that the District receives an estimated 20 percent reduction in its vehicle purchases through the use of GSA. Based on FY 2002 sales figures to the District, we estimate that the inability to purchase vehicles from GSA could increase vehicle costs by almost \$4 million annually.

CONTINUING IMPROVEMENT

In February of 2003, the District formed a Vendor Information Committee (Committee) under the leadership of the OFT. Its primary mission is to address the payment process and propose solutions for payment problems with GSA. The committee meets regularly (generally monthly) to resolve billing discrepancies with GSA officials. Officials from the OIG and the Office of Integrity and Oversight have attended these meetings to help facilitate solutions relative to late payments.

Each month, GSA provides a listing of unpaid invoices to OFT officials. They, in turn, review the list and contact agency financial managers and provide them with the list of unpaid invoices for their respective agencies. Agencies with unpaid invoices are asked to attend the next VIC meeting to discuss and resolve all payment issues.

While the reasons for the late/slow payments vary, we became aware of some common reasons why payments have been extremely late and actions that have been proposed or implemented by management to remedy the problem.

| Identified Problem | Proposed Solution |
|---|--|
| <ul style="list-style-type: none">Current payment procedures do not contain mechanisms to bring delinquent payments to the attention of the agency or department CFO, so that expeditious action may be taken. There are other problems in business processes such as reconciliation procedures, check writing, and administration. | <ul style="list-style-type: none">Internal audit checks by the OCFO will be performed periodically to ensure delinquent payments are held to an absolute minimum.Performance measures will be established on the basis of delinquent amounts owed, day's delinquent, etc. Information Center managers will be held accountable for delinquencies. |

| Identified Problem | Proposed Solution |
|---|--|
| <ul style="list-style-type: none"> There is no central clearing house that GSA can contact to discuss unpaid invoices. | <ul style="list-style-type: none"> Vendor Information Center will be given consummate authority to ensure timely payments of all invoices. GSA will provide one point of contact to resolve issues. |
| <ul style="list-style-type: none"> Many of the invoices currently outstanding with GSA are for purchases dating back 3 years or more. GSA advised us that it no longer has ready access to information as to what was purchased and by whom. Without a description of the item purchased, District officials are finding it difficult to identify whether the corresponding obligation was entered into the District financial system and whether prior year funds were set aside and are available to pay outstanding balances. | <ul style="list-style-type: none"> Department and Agency CFO's will devise expeditious procedures to process GSA vehicle invoices for payment through Accounts Payable and Budget. Department and Agency CFO's and Equipment Intake Managers have developed procedures to expedite the processing of paperwork through the system with emphasis on notification of receipt and accelerated payment action. Priority will be given to quick payment to GSA. |
| <ul style="list-style-type: none"> Billing codes and other identifying information included on GSA documents may identify an incorrect agency or agency procurement address and contact points. | <ul style="list-style-type: none"> District agencies have the capability to include information specific to the ordering agency, encumbrance, or other control data. They are now required to include this data. |
| <ul style="list-style-type: none"> The District's Public Works Division is the procurer for fleet and equipment purchases for other District agencies. GSA invoices have remained outstanding for extended periods because after receiving a vehicle, the ordering agency does not receive a copy of the invoice to authorize payment. As such, the outstanding invoice amount remains due on the books of Public Works, while it is the responsibility of the ordering agency, who is not made aware that payment is due. | <ul style="list-style-type: none"> Agencies are in the process of establishing their own billing office address codes (BOAC) and ensuring that addresses and contact point information is correct and kept up to date. District BOAC requests will be centrally controlled and administered. GSA will only accept BOAC requests from the District central authority. |
| <ul style="list-style-type: none"> GSA records of amounts due do not agree with District records. Differences occur because payments are applied against the wrong account. | <ul style="list-style-type: none"> Checks made payable to GSA are to include the bill number and amount to be charged to a particular bill or bills. |